

MRCB

EPF's Interest a Longer Term Positive

By Marie Vaz / msvaz@kenanga.com.my

News

- Rukun Juang Sdn Bhd (RJSB), a 85%-owned subsidiary of MRCB Land Sdn Bhd and MRCB, accepted the Letter of Intent (LOI) from EPF to purchase 80% interest in an entity (Entity 1) for RM421.5m. The entity will be directed by RJSB to hold the Exchange Land 1 after it has been delivered pursuant to the terms of the Privatisation Agreement while MRCB will subscribe for or purchase the remaining 20% interest in Entity 1.
- This announcement is in relation to the previous proposed privatisation agreement between MRCB's subsidiary RJSB and the Malaysian Government, for the refurbishment of facilities in the National Sports Complex, Bukit Jalil for a contract sum of RM1.6b, in exchange for 92.5ac (3 pieces of leasehold land) in Bukit Jalil that has a potential GDV of RM14.6b.
- Exchange land 1 only comprises of the first piece of land of 28.1ac worth RM496.3m.
- Additionally, the 1st tranche of the private placement has been completed (*refer overleaf*).

Comments

- We are neutral on the near-term impact as MRCB would still have to front the initial cost of RM499.2m (Project 1) of the refurbishment of the National Sports Complex as stipulated in the earlier announcement dated 28th Oct-15 (*refer to Table 1*), which will be funded by internally generated funds, causing net gearing to increase in the near term as MRCB may only be able to realise the value upon completion of Project 1.
- However, we believe this news is a mild longer term positive for MRCB as EPF's 80% stake in the new Entity 1 (which refers to ownership of Exchange land 1), likely by 4Q17, helps lock in land cost at current prices and also alleviate burden straining MRCB's balance sheet (*refer overleaf*).
- We believe the rationale for this deal is in line with management's previously highlighted strategy of exploring the option of developing land on a multi-party JV structure to avoid over-taxing MRCB's balance sheet as contracts associated with land swap deals imply that value realization will take much longer while cash will be tied up in these assets.
- This will help to alleviate MRCB's debt burdens in the longer run through value realisation as current net gearing is high at 1.27x, but could increase up to 1.78x in FY17 post the: (i) Bukit Jalil land swap, (ii) Cyberjaya City Centre (CCC) development, and (iii) payment of Kwasa Land (RM0.7b).

Outlook

- MRCB plans to launch at least c.RM1.0b worth of development projects in FY16. However, given the weak property market, we would not be surprised if the group scales back launches.
- It has a remaining external construction orderbook of c.RM2.5b, coupled with c.RM1.6b unbilled property sales providing the group with at least two years of earnings visibility.

Forecast

- We make no changes to earnings for now pending a detailed announcement which will be made upon the execution of the agreements.

Rating

Maintain MARKET PERFORM

Valuation

- Maintain MP and TP of RM1.39 based on FY16E NTA/share of RM1.10 and a Fwd. P/NTA of 1.26x which is -1SD to the average 6-year historical mean.
- We apply a below average Fwd. P/NTA due to weakening sentiment on the stock arising from: (i) dilution of existing shareholdings from the new placement, and (ii) RAM's downgrade of the Southern Link's junior sukuk. We maintain our valuations although earnings may be weak in the near-term due to its compelling turnaround plans.

Risks

- (i) weaker than expected property sales, (ii) lower than expected sales and administrative cost, (iii) negative real estate policies (iv) tighter lending environments

MARKET PERFORM ↔

Price: **RM1.22**
Target Price: **RM1.39** ↔

Share Price Performance



KLCI	1,714.51
YTD KLCI chg	1.3%
YTD stock price chg	-4.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MRC MK Equity
Market Cap (RM m)	2,301.6
Issued shares	1,886.6
52-week range (H)	1.52
52-week range (L)	0.80
3-mth avg daily vol:	2,010,548
Free Float	38%
Beta	1.1

Major Shareholders

EMPLOYEES PROVIDENT	38.4%
GAPURNA SDN BHD	16.7%
LEMBAGA TABUNG HAJI	10.1%

Summary Earnings Table

FY Dec (RM'm)	2015A	2016E	2017E
Turnover	1,696.7	2,004.5	2,390.5
EBIT	547.1	226.2	294.1
PBT	370.1	96.9	164.8
Net Profit (NP)	330.4	38.4	65.3
Core Net Profit	-74.6	38.4	65.3
Consensus (NP)	-	81.2	107.6
Earnings Revision	n.a.	n.a.	n.a.
Core EPS (sen)	-4.0	2.0	3.5
EPS growth (%)	-279.5	-151.4	70.1
NDPS (sen)	0.0	0.3	0.5
NAV/Share (RM)	1.03	1.10	1.13
PER (x)	7.0	60.0	35.3
Core PER (x)	-30.8	60.0	35.3
Price/NAV (x)	1.18	1.10	1.08
Gearing (x)	1.3	1.2	1.2
Dividend Yield (%)	0.0	0.3	0.4

26 April 2016

OTHER POINTS

We believe this news is a mild longer term positive for MRCB as EPF's 80% stake in the new Entity 1 (which would occur post completion and handover of Project 1), during exchange of land, likely by 4Q17, helps lock in land cost at current prices and alleviates the strained MRCB's balance sheet in the longer run. EPF's 80% stake in Entity 1 is effectively worth RM399.2m (based on 80% of construction cost of RM499.2m), while EPF's contribution of RM421.5 is at a 5.6% premium, arising from approval of the development order.

Completed 1st tranche of private placement. Additionally, MRCB has also completed the first tranche of its placement of 100m shares issued at RM1.09, increasing its share base by 5.6% which we have accounted for in our estimates.

Outlook. MRCB plans to launch at least c.RM1.0b worth of development projects in FY16, consisting of "affordable" residentials at 3 Residences, Kajang (GDV: RM195m), high-end residences near KLCC namely The Grid (GDV: RM415m), Semarak City (GDV: RM3,162m), and office buildings in Putrajaya (GDV: RM336m). However, given the weak property market, we would not be surprised if the group scales back launches.

Table 1: Project details: Breakdown of project (Refurbishment of National Sports Complex)

Project	Total Consideration (RM'm)	Details	Project Duration
Project 1	499.2	refurbishing, renovation and upgrading of the National Stadium, Putra Stadium, hockey stadium and aquatic centre located at the National Sports Complex, Bukit Jalil together with the construction of the common infrastructures including boulevard, parking, steps and new signage and all other works as detailed in the Privatisation Agreement	18 months from construction commencement date
Project 2	1100.8	upgrading of the National Stadium, developing, planning, designing, constructing, completing and commissioning of a sports complex, sports mall, convention centre, a multi storey car park, hostels, sport museum, library, youth park together with the construction of the common infrastructures	36 months from construction commencement date
TOTAL Project Cost	1600.0		
Additional Cash Sum	31.9		
TOTAL	1631.9		

Source: Company, Kenanga Research

Table 2: Project details: Refurbishment works are exchangeable for Lands worth RM1631.9m

Exchange land details	Land Size (ac)	Total Consideration (RM'm)
Land 1	28.13	496.3
Land 2	17.59	310.3
Land 3	46.78	825.3
TOTAL	92.5	1631.9

*The Government will transfer Land 1 upon completion of Project 1 and Land's 2 and 3 upon completion of Project 2 and payment of the cash sum of RM31.9m

Source: Company, Kenanga Research

Table 3: Funding required

Cash required in the near term	Total Consideration in FY16-17E (RM'm)
Announcement 1 - for 70% stake in CSB Development to develop CCC (by Oct-16)	269.5
Announcement 2 -cash payment for exchange of the lands and construction cost of National Sports Complex	499.2
TOTAL	768.5
Kwasa Land	700.0
Gearing (pre-placement)	1.92x
Gearing (post 1st tranche placement of 5.6% dilution)	1.78x

Source: Company, Kenanga Research

Table 4: EPF purchase of Entity 1 based on latest announcement (dated 25th April 2016)

EPF	80%	RM'm	Details
Tranche 1		397.0	if the difference between the proposed land area of the Exchange Land 1 of 28.13 acres and the actual land area upon delivery to the Entity exceeds 4% as determined pursuant to the terms of the Privatisation Agreement, shall be payable upon the satisfaction of all conditions precedent set out in the Letter of Undertaking
Tranche 2		24.5	if the difference between the proposed land area of the Exchange Land 1 of 28.13 acres and the actual land area upon delivery to the Entity exceeds 4% as determined pursuant to the terms of the Privatisation Agreement, shall be payable upon the issuance of the development order in respect of the Exchange Land 1 by the relevant authority.
TOTAL		421.5	

Source: Company, Kenanga Research

Table 5: Conditions Precedents

The purchase of Interest by EPF is subject to the following Condition Precedents (CP) on or before 24 months from the date of the Letter of Undertaking

- 1 The issuance of an issue document of title in respect of the Exchange Land 1 in favour of the Entity, free from all encumbrances and which indicate that the Exchange Land 1 is held under a registry title with a leasehold period of ninety nine (99) years and subject to the category of "building"
- 2 The approved plot ratio for the development of the Exchange Land 1 shall be no less than 1:6.5;
- 3 RJSB shall have obtained all necessary approvals from its directors and shareholders in relation to the sale and purchase of the Interest
- 4 MRCB, the holding company of RJSB shall have obtained all necessary approvals from its directors and shareholders in relation to the sale and purchase of the Interest
- 5 All regulatory approvals required in relation to the sale and purchase of the Interest shall have been obtained.

Source: Company, Kenanga Research

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Income Statement

FY Dec (RM m)	2013A	2014A	2015A	2016E	2017E
Revenue	940.7	1,514.5	1,696.7	2,004.5	2,390.5
EBITDA	31.2	354.4	547.1	242.7	311.2
Depreciation	-21.2	-38.8	0.0	-16.6	-17.1
Operating Profit	10.1	315.6	547.1	226.2	294.1
Int Income	23.5	38.4	0.0	38.4	38.4
Interest Exp	-147.9	-171.2	-184.8	-169.4	-169.4
Associate	6.0	12.3	16.0	2.6	2.6
Jointly Controlled Entity	-1.0	-36.6	-8.1	-0.9	-0.9
PBT	-110.4	220.6	370.1	96.9	164.8
Taxation	-12.5	-53.3	-6.1	-24.2	-41.2
Minority Interest	8.8	-30.9	-33.6	-34.3	-58.3
Net Profit	-114.0	136.5	330.4	38.4	65.3
Core Net Profit	-54.6	41.6	-74.6	38.4	65.3

Balance Sheet

FY Dec (RM m)	2013A	2014A	2015A	2016E	2017E
Fixed Assets	1,714.4	2,083.5	2,537.9	1,827.8	1,669.8
Intangible Assets	291.1	271.8	317.1	317.1	317.1
Other FA	1,043.0	1,694.0	2,336.6	2,371.1	2,412.6
Inventories	724.8	874.2	551.7	729.6	952.8
Receivables	207.6	748.3	1,095.1	1,082.1	1,240.8
Other CA	2,304.9	978.0	45.5	978.0	978.0
Cash	603.4	660.7	520.7	395.8	410.3
Total Assets	6,602.7	7,041.9	7,089.8	7,386.8	7,666.6
Payables	607.1	652.6	1,188.4	1,320.8	1,486.8
ST Borrowings	2,594.3	1,390.5	1,042.1	1,042.1	1,042.1
Other ST Liability	626.4	527.4	54.8	54.8	54.8
LT Borrowings	916.1	2,300.1	2,345.2	2,345.2	2,345.2
Other LT Liability	122.1	106.8	135.2	135.2	135.2
Minorities Int.	61.3	79.3	52.6	86.9	145.3
Net Assets	1,675.4	1,985.3	2,260.1	2,401.7	2,457.1
Share Capital	1,899.1	2,111.2	2,114.5	2,214.5	2,214.5
Reserves	51.4	28.9	62.5	71.5	71.5
Equity	1,675.4	1,985.3	2,260.1	2,401.7	2,457.1

Cashflow Statement

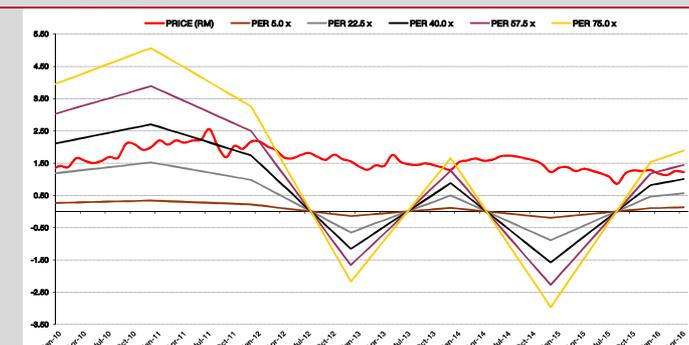
FY Dec (RM m)	2013A	2014A	2015A	2016E	2017E
Operating CF	315.0	-246.1	1,055.0	-744.8	55.9
Investing CF	-345.2	-42.5	-825.1	658.9	99.4
Financing CF	165.2	162.3	-472.7	-136.8	-140.8
Change In Cash	135.1	-126.3	-242.9	-222.7	14.5
Free CF	173.6	-361.7	606.7	-27.1	238.0

Financial Data & Ratios

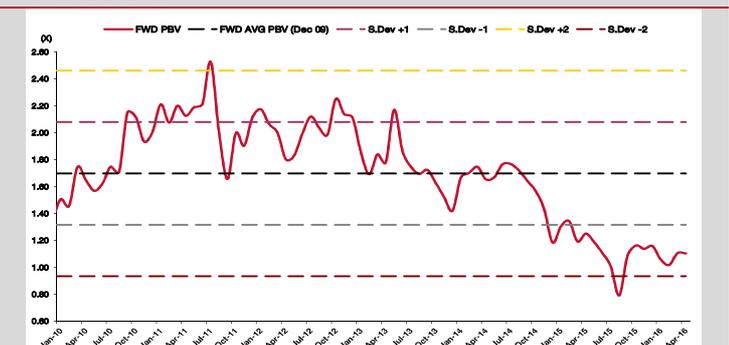
FY Dec (RM m)	2013A	2014A	2015A	2016E	2017E
Growth					
Turnover (%)	-26.7	61.0	12.0	18.1	19.3
EBITDA (%)	-87.1	1034.6	54.4	-55.6	28.2
Op Profit (%)	-95.5	3032.9	73.3	-58.7	30.0
PBT (%)	-182.4	-299.9	67.8	-73.8	70.1
CNP (%)	-190.8	-176.1	-279.5	-151.4	70.1
Profitability (%)					
EBITDA Margin	3.3	23.4	32.2	12.1	13.0
Operating Margin	1.1	20.8	32.2	11.3	12.3
PBT Margin	-11.7	14.6	21.8	4.8	6.9
Core Net Margin	-5.8	2.7	-4.4	1.9	2.7
Effective Tax Rate	-11.3	24.1	1.6	25.0	25.0
ROE	-3.26	2.09	-3.30	1.67	2.78
ROA	-0.83	0.59	0.27	0.60	0.88
DuPont Analysis					
Net Margin (%)	-5.8	2.7	-4.4	1.9	2.7
Assets Turnover (x)	0.1	0.2	0.2	0.3	0.3
Leverage Factor (x)	3.9	3.5	3.1	3.2	3.2
ROE (%)	-3.26	2.09	-3.30	1.67	2.78
Leverage					
Debt/Asset (x)	0.5	0.5	0.5	0.5	0.4
Debt/Equity (x)	2.1	1.9	1.5	1.5	1.4
Net Debt/Equity (x)	1.7	1.5	1.3	1.4	1.3
Valuations					
EPS (sen)	-5.8	8.1	17.5	2.0	3.5
Core EPS (sen)	-2.9	2.2	-4.0	2.0	3.5
NDPS (sen)	0.9	2.4	0.0	0.3	0.5
BV (RM)	0.7	0.9	1.0	1.1	1.1
PER (x)	-21.1	15.1	7.0	60.0	35.3
Core PER (x)	-42.2	55.4	-30.8	60.0	35.3
Net Div. Yield (%)	0.7	1.9	0.0	0.3	0.4
P/BV (x)	1.66	1.34	1.18	1.10	1.08

Source: Kenanga Research

Fwd PER Band



Fwd PBV Band



Source: Bloomberg, Kenanga Research

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Peer Comparison

NAME	Price (25/4/16)	Mkt Cap	PER (x)			Est. NDiv. Yld.	Historical ROE	P/BV	Net Profit (RMm)			FY16/17 NP Growth	FY17/18 NP Growth	Target Price	Rating
	(RM)	(RMm)	FY15/16	FY16/17	FY17/18	(%)	(%)	(x)	FY15/16	FY16/17	FY17/18	(%)	(%)	(RM)	
DEVELOPERS UNDER COVERAGE															
S P SETIA BHD*	3.24	8,516	9.3	12.0	10.2	5.3%	13.9%	1.1	918.3	708.4	834.4	-22.9%	17.8%	3.08	MARKET PERFORM
IOI PROPERTIES GROUP BHD*	2.40	10,587	11.9	15.0	14.8	2.5%	3.9%	0.7	528.6	705.5	716.8	33.5%	1.6%	2.09	UNDERPERFORM
UEM SUNRISE BHD*	1.06	4,810	18.8	16.1	15.9	1.5%	3.9%	0.8	257.2	299.3	303.2	16.4%	1.3%	1.07	UNDERPERFORM
SUNWAY BHD	3.13	6,154	7.4	10.8	10.7	3.2%	11.7%	0.8	594.0	485.0	503.0	-18.4%	3.7%	3.20	MARKET PERFORM
MAH SING GROUP BHD^	1.49	3,590	10.1	9.5	9.2	4.3%	14.3%	1.1	357.2	379.7	389.5	6.3%	2.6%	1.35	MARKET PERFORM
ECO WORLD DEVELOPMENT GROUP BHD	1.31	3,097	70.5	24.5	12.0	0.0%	2.5%	0.9	44.0	126.6	257.8	188.0%	103.7%	1.74	OUTPERFORM
UOA DEVELOPMENT BHD*	2.20	3,343	8.4	9.4	9.2	6.4%	14.1%	1.0	399.0	355.7	363.1	-10.9%	2.1%	2.22	MARKET PERFORM
MALAYSIAN RESOURCES CORP BHD	1.22	2,302	-30.8	60.0	35.3	25.2%	-3.3%	1.1	-74.6	38.4	65.3	-151.4%	70.1%	1.39	MARKET PERFORM
KSL HOLDINGS BHD	1.27	1,277	4.5	6.1	6.4	6.5%	10.0%	0.6	212.0	198.0	190.0	-6.6%	-4.0%	1.18	UNDERPERFORM
MATRIX CONCEPTS HOLDINGS BHD	2.46	1,388	8.2	6.2	7.0	7.3%	29.5%	1.6	182.6	243.1	213.0	33.1%	-12.4%	2.46	MARKET PERFORM
CRESCENDO CORPORATION BHD*	1.68	382	8.9	21.5	18.9	2.0%	15.3%	0.4	43.3	19.1	20.3	-55.9%	6.3%	1.74	UNDERPERFORM
HUA YANG BHD	1.83	483	4.4	4.3	4.6	7.2%	25.9%	0.9	110.6	111.6	106.1	0.9%	-4.9%	2.20	OUTPERFORM
CONSENSUS NUMBERS															
IGB CORPORATION BHD	2.50	3,337	15.7	14.3	13.2	3.4%	5.0%	0.8	212.1	233.6	253.6	10.1%	8.6%	3.87	NEUTRAL
GLOMAC BHD	0.83	601	6.8	7.3	6.9	4.1%	9.8%	0.6	88.0	82.5	86.9	-6.2%	5.3%	0.91	NEUTRAL
PARAMOUNT CORP BHD	1.55	656	9.7	9.1	8.2	5.2%	7.8%	0.7	67.8	71.9	80.4	6.1%	11.8%	2.32	BUY
TAMBUN INDAH LAND BHD	1.42	603	5.9	6.2	5.6	5.2%	23.6%	1.3	101.6	96.9	107.5	-4.7%	11.0%	1.59	BUY

* Core NP and Core PER

** Crescendo per share data is based on non-Fully Diluted

^ Last price and TP is Ex-rights and Ex-Bonus.

Source: Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	:A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
MARKET PERFORM	:A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERPERFORM	:A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

OVERWEIGHT	:A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
NEUTRAL	:A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERWEIGHT	:A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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KENANGA INVESTMENT BANK BERHAD (15678-H)
 8th Floor, Kenanga International, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia
 Telephone: (603) 2166 6822 Facsimile: (603) 2166 6823 Website: www.kenanga.com.my



Chan Ken Yew
Head of Research

